

A woman with dark hair, wearing a dark top, is looking down at a document she is holding. The document has a logo that says "PMIO" and some text below it. The background is a plain, light-colored wall.

# Commission on Taxation Report

## Briefing

The long awaited Commission on Taxation Report was made available online at 11.00 am this morning. It is a very comprehensive document running to 550 pages in total! The report is available to download on [www.taxcommission.ie](http://www.taxcommission.ie) for those of you who wish to delve further into the detail.

The purpose of this email flyer is to provide you with a very high level summary of the key recommendations contained within the report. Some of the recommendations made have already been subject to recent Media scrutiny following leaks of the report to the Media such as the introduction of a new property tax and the restriction of the tax free pension lump sum. However, you will note there are many recommendations that may not have been so widely anticipated which we have also summarised.

## 1. Introduction

The recommendations contained in the report lean towards the broadening of the tax base rather than suggesting an increase in tax rates. It is also acknowledged that the Irish tax system should move away from a transaction based tax system with a view to generating a more stable tax revenue system. This recommendation is made specifically in the context of Property taxes which is elaborated upon further below.

## 2. High Earner's CAP

The restriction which currently applies to the use of certain tax reliefs and exemptions by high earners has been recommended to remain part of the tax code. The Commission also recommend that the relevant threshold amount which is not affected by this restriction should be reduced from €250,000 to €200,000.

Furthermore, it is suggested that this measure should be periodically reviewed.

## 3. PRSI

- ◆ Removal of the employee PRSI ceiling on a phased basis. Furthermore, it is proposed that employees should be subject to PRSI in the same manner as self employed individuals which would include being subject to PRSI on unearned income such as investment income and rental income.
- ◆ It has been recommended that share based remuneration, including share options, should be subject to PRSI. Conversely, the Commission have recommended that trading losses should be deductible for PRSI purposes subject to the payment of a minimum annual PRSI contribution.
- ◆ Social Welfare payments and Child Benefit payments should no longer be exempt from income tax.

## 4. Tax Residence Rules

- ◆ The 183/280 day residence test should be strengthened to include supplementary criteria in order to fall outside the definition of Irish resident. It has been suggested that such additional criteria will include a permanent home test and a test based on an individual's centre of vital interests.
- ◆ It has been recommended that the remittance basis of taxation for income tax and capital gains tax should be discontinued on a phased basis.

## 5. Taxation of Property

- ◆ An annual property tax has been recommended for residential property. No deduction will be allowed for borrowings on the property.
- ◆ It is recommended that stamp duty on the purchase of a residential property which is a person's principal private residence should be zero rated.
- ◆ Stamp duty should continue to apply for investor purchasers of residential property. It is recommended that stamp duty rates should be re-aligned with comparable rates and thresholds that apply across the EU.
- ◆ It is recommended that the annual property tax is calculated by reference to the open market value of the property using valuation bands and subject to self-assessment. It will be payable by the owner of the property and will apply to all residential property with the exception of Local Authority and Social Housing etc. It is also proposed that there would be transitional rules in the case of a Principal Private Residence of a person who paid stamp duty during the previous seven years.
- ◆ The timing of introducing the annual property tax is not clear. The rate of property tax has also not been concluded upon. Interestingly, the rates used in the examples provided in the report were 0.25% and 0.3%.
- ◆ An additional capital gains tax charge has been recommended to tax any windfall gains from increases in land values due to rezoning decisions.
- ◆ It has been recommended that an annual property tax on land zoned for development should be introduced.
- ◆ The re-introduction of inflation relief for capital gains has also been suggested.

## 6. Abolishment of certain tax based incentives

The Commission on Taxation has recommended that the following tax based reliefs or exemptions be discontinued:-

- ◆ Capital allowances for childcare facilities/crèches
- ◆ Tax exemption for patent royalties/patent dividends
- ◆ Income tax relief for expenditure on heritage buildings and gardens (Significant Buildings Allowance)
- ◆ Tax relief currently claimed by the self employed in respect of charitable donations to be treated in same way as PAYE earners i.e. tax relief is paid to charity instead.
- ◆ Capital gains tax exemption which currently applies to philanthropic and sports bodies in respect of disposals of development land

- ◆ Rent-a-room relief
- ◆ Stock relief for farming businesses
- ◆ Artist's exemption
- ◆ Capping of the Sports person's relief to €350,000

## 7. Estate Planning

The Commission on Taxation has also recommended various changes to certain capital gains tax ("CGT") and capital acquisitions tax ("CAT") reliefs which currently can be availed of in passing assets to the next generation. These can be summarised as follows:-

- ◆ To abolish CGT and stamp duty exemptions on the disposal of a site to a child
- ◆ Restrict the application of retirement relief (CGT exemption) on family transfers to asset values of €3 million.
- ◆ Restrict the amount of business relief or agricultural relief that can be availed of on the transfer of business property or farming assets. Currently the taxable value of such a gift can be reduced by 90% of its market value. The Commission on Taxation has recommended that this reduction should be no more than 75% of the value of the business subject to an overall monetary cap of €3 million. (i.e. business assets worth €4 million would be reduced by a maximum of €3 million to a taxable value of €1 million.)

## 8. Retirement Planning

The Commission on Taxation has recommended a change to the tax treatment of a lump sum payable from a pension by suggesting the capping of the amount that can be received as a tax free lump sum to €200,000. It has been recommended that any excess of the pension lump sum received over €200,000 should be taxable at the standard rate of income tax.

## 9. Ex gratia payments

It has also been suggested that income tax relief for ex-gratia payments should continue but that the amount of the tax free payment will be restricted to €200,000.

## 10. Business/Corporate Tax

A number of measures have been recommended in this area as follows:-

- ◆ Maintain the current standard rate of corporation tax at 12.5%.
- ◆ Revision of the preliminary tax payment rules for large companies so that all companies should be allowed to adopt a previous year option in relation to the payment of preliminary tax.

- ◆ Relaxation of close company surcharge provision including a recommendation to remove the close company surcharge provisions on professional service companies.
- ◆ Capital allowances to follow accounting depreciation policy.
- ◆ Expand the list of buildings that qualify for capital allowances (for example call centres)
- ◆ Corporation tax payable on gains on disposal of assets used for trading purposes should be at the rate applicable to trading profits.
- ◆ Reduce the rate of stamp duty on all share transactions to zero.
- ◆ Reduce the tax rate on dividends received by Irish residents to the rate applying to deposit interest.
- ◆ Retain current research and development tax credit regime. Companies should also be permitted to offset their R&D tax credit against their employer PRSI costs.

## 11. Environmental Taxes

- ◆ The Commission have recommended that a carbon tax on fossil fuels should be introduced.
- ◆ The Commission proposes to continue with the Accelerated Capital Allowances regime for energy-efficient equipment scheme for its current term.
- ◆ It is proposed to replace the VRT system by a system based on car usage in the longer term.

## 12. General

- ◆ Does not recommend the introduction of wealth taxes
- ◆ Recommends the continuation of a single rate of CGT and CAT
- ◆ No changes to VAT
- ◆ On a lighter note, the exemption from income tax on lottery winnings should continue.

The Commission on Taxation Report will no doubt receive a lot of widespread media attention over the coming days. It is likely that some of these recommendations will be implemented in the forthcoming December Budget. In the meantime, if you have any specific concerns or require further clarification on any issues raised above, please do not hesitate to contact us.

*The above is intended as a general guide to the measures announced in the Commission on Taxation Report 2009. While every care and attention has been taken to ensure the accuracy of the information contained in this document professional taxation advice and clarification should always be sought.*

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